November 4, 2002

Ms. Susan Bielstein  
Director, Major Projects & Technical Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Ms. Bielstein,

The Council of Institutional Investors is pleased to comment on the Exposure Draft of the Proposed Statement, “Accounting for Stock-Based Compensation - Transition and Disclosure.” Members of the Council, an association of more than 130 corporate, public and union pension funds with more than $3 trillion in pension assets, have a significant financial stake in the U.S. capital markets. Audited financial statements are one of the primary sources of information available to guide and monitor Council members’ investment decisions. The integrity of these statements is critical to Council members and their millions of pension system participants and beneficiaries.

We recommend that the retroactive restatement method of transition be the only method allowed. Investors are familiar enough with the current footnote information that a retroactive restatement of all periods in which an income statement is presented would be the most concise form of presentation available. Such a retroactive disclosure would not be confusing to financial statement users.

We also believe that the following additional disclosure of option activity is warranted:

• A requirement for interim information about option activity is warranted. The optimal disclosures would be a table showing the beginning balance, grants, exercises, forfeitures, cancellations, and ending balance, along with ranges of exercise prices and average weighted exercise prices.
• Optimal interim disclosures should include fair value information for the options granted. The (weighted-average) assumptions used in estimating the fair value should be a part of these disclosures. Knowing the assumptions would help investors assess reasonableness of the fair values.
• The amount of stock-based compensation contained in expense lines of the income statement (or would contain it if a recognition policy was in place) should be disclosed.

Please contact me or Ann Yerger with any questions.

Sincerely,

[Signature]
Sarah E. Teslik  
Executive Director